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**China's Maritime Silk Road and Small States: Lessons from the Case of Djibouti**

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### **Abstract**

This article sheds light on the factors shaping China's Maritime Silk Road Initiative (MSRI) in small states through a study of Djibouti and the MSRI. It also analyses the establishment of China's first overseas military base and thus evaluates the military-security implications of Chinese MSRI ports. Among other things, it shows that we need to conceive the locational value of MSRI participants more richly, that the existence of an authoritarian partner has advantages for China, but does not necessarily drive MSRI activities, and that small MSRI states have agency vis-à-vis China. It suggests, too, there is a template of Chinese port development and that it should not be assumed that China is intentionally wielding the "debt trap" to gain equity.

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## Introduction

This article provides comparative insight into the evolution of the Belt and Road Initiative (BRI) via a detailed analysis of Chinese investment in one key hub on the Maritime Silk Road (MSR). It analyses how and why diminutive Djibouti became such a strategically significant state for Chinese companies, the government, and the Chinese navy. Since 2013 China has invested heavily in Djibouti's ports and railway, rapidly transforming the Red Sea state into a key logistical hub for a wide range of Chinese trade, investment and naval activities on the MSR. As such, Djibouti's case appears comparable to maritime hubs on the MSR in Asia; most explicitly Gwadar in Pakistan and Hambantota in Sri Lanka. In Sri Lanka as in Djibouti, a state-owned enterprise (SOE), China Merchants Group (CMG), is the leading investor in port and free zone development. In Djibouti as in Hambantota, debt to China has become a major policy issue. In 2017 CMG acquired a 99-year lease on the port of Hambantota partly in exchange for unpaid Sri Lankan state debt. This has sparked wider debate about how China will manage any subsequent debt defaults on infrastructure projects in Africa. This text provides comparative insights context from Djibouti on the evolution and composition of Chinese investments and debt.

The text also examines China's rationale for establishing its first permanent overseas naval facility in Djibouti in August 2017. Does this stem from the extensive Chinese commercial investments in the region, broader geo-strategic rivalry with the US and other powers, or other factors? A key question for students of Chinese foreign policy and the MSR Initiative (MSRI) is whether there are unique factors underpinning China's naval ties with Djibouti: will it remain the only "military hub" on the MSR? Or will other key ports such as Gwadar in Pakistan, Sri Lanka's Hambantota, or berths in the Seychelles or Maldives follow the precedent set in Djibouti?

We consider two main variables that might inform the future trajectory of China's involvement with other strategically placed ports on the MSR. The first variable is a state's geo-strategic location. In Djibouti's case, this driver seems pertinent given it lies at the intersection of shipping lanes of vital importance for both western economies and China because these lanes are a corridor for Europe's imports and oil. Additionally, Djibouti sits astride fiber-optic cable lanes which provide the backbone of global telecommunications. These follow the shipping lanes across the Gulf of Aden, with three existing international cables meeting just south of Bab al-Mandab. It is hardly surprising that China, following other global powers in the region, devotes military attention and resources to such a state.

The second variable considered the state's domestic political context. Logically, one might expect China, other factors being equal, to be able to implement MSRI projects (including associated military initiatives) with authoritarian leaders most straightforwardly, given the political wherewithal of authoritarian governments to embrace and implement the MSRI without constraints. After all, the rotation of leaders in democracies may produce newly elected governments that question or cancel MSRI contracts. This has happened in Sri Lanka in 2015 and the Maldives and Malaysia in 2018. Furthermore, authoritarian leaders have the ability to hide the terms of MSRI and military agreements and activities associated with them, allowing for certain "flexibilities." With respect to Djibouti, President Ismael Omar Guelleh, has held power since 1999. He faces little opposition, rules over a tiny population via extensive powers of patronage and has considerable experience in negotiating with major foreign powers.

Djibouti became a formal partner of the MSRI on 2 September 2018, following a meeting between Djibouti's President Ismael Omar Guelleh and his Chinese counterpart President Xi Jinping in Beijing. The next day, addressing the seventh Forum on China African Cooperation (FOCAC), President Guelleh stated:

[W]e have greatly benefited from Chinese investments in our ports, railways, and roads [...] the One Belt, One Road Initiative is, therefore, the key to furthering our growth agenda and we are delighted that our region will continue to benefit from its many advantages.<sup>1</sup>

Ten months earlier, in November 2017, Djibouti's prominent position on the MSR was reflected in China's high-profile reception of the Djiboutian President during a state visit to Beijing, the first foreign head of state to be received by Xi Jinping following the 19th national congress of the Communist Party of China.

Beyond investigating the potential relevance of the aforementioned two variables, this text also analyzes how a key Chinese company on the MSR globally—China Merchants Group—pioneered commercial investment in Djibouti's Ports and Free Zone Authority (DPFZA) and its facilities. In so doing, it sheds light on the motivations of Chinese state-owned enterprises (SOEs) in the MSRI, which have been charged with acting based on political considerations and gives us a sense of what forms MSRI projects might take elsewhere. Interestingly, we see the application of a standard “template” of MSR investment (mirroring very similar Chinese port strategies at Colombo and Hambantota in Sri Lanka, for example) as well as indications of newer MSRI components, notably involving Chinese telecoms and e-payments investors such as Chongqing-based IZP.

The last major theme that this article covers is negotiations over China's naval access to Djibouti. The value of this is to make clearer the position of MSRI participant countries. Conventional wisdom is that they must bow to the dictates of Beijing given their relative weakness vis-à-vis China. However, this text shows the situation actually may be much more complex given the diverse bargaining assets of states. Regarding Djibouti, this analysis highlights that Djibouti's stable, patronage-based government has extensive prior experience and skill in negotiating similar access with other global powers. It argues that China's naval presence in Djibouti reflects a double paradox. Firstly, despite Djibouti's diminutive size and lack of material resources, its government had a relatively strong hand when China came to negotiate the construction of naval facilities in Djibouti in 2014-17.<sup>2</sup> Equally paradoxically, it was more straightforward and less controversial internationally, for China to establish its first overseas military facility directly alongside other major powers, rather than in a state with no history of hosting foreign forces.

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<sup>1</sup> Guelleh, Ismail Omar, Speech to FOCAC Summit, September 3, 2018, accessed September 15, 2018, <https://www.facebook.com/PAGEOFFICIELLEIOG/posts/2050264555023907>.

<sup>2</sup> By 2018 ‘The Chinese People's Liberation Army (PLA) Support Base in Djibouti’ was state media's preferred English nomenclature. The terms ‘logistics’ or ‘support facility’ invariably being preferred by Chinese media to the more conventional ‘military base’.

The article draws on a range of secondary sources and the author's own research in the region; it is the first article to attempt to analyze Djibouti's role within the MSRI.<sup>3</sup> It is structured in the four sections. Section one briefly sketches a chronology of the evolution of political and economic ties between Beijing and Djibouti before analyzing the degree to which political and security cooperation in the maritime domain preceded major projects in port and railway infrastructure as part of the MSRI since 2013. Section two then examines these specific projects in detail, noting that these are designed primarily to accelerate China-Ethiopia economic ties, rather than develop Djibouti per-se. Section three outlines the recent, rapid evolution of China's military and naval logistics facility in Djibouti. Section four then evaluates the overall argument and key variables shaping bilateral ties, examining what insights from China's investment in Djibouti might be applicable to other small states on the MSR.

### **Djibouti: background and historical links with China**

#### *Small states on the MSR: Djibouti, patronage & geo-strategy*

Despite the “win-win” rhetoric about partnerships between China and small states along the MSR, one of the key challenges for Beijing has been the disparate size and political systems of the states in which it has invested. Malaysia and Sri Lanka both have sizable populations and pluralist polities, whereas the Maldives has less than half a million people and a highly unstable, fractious polity. Djibouti also has a population of around a million, but appears a highly stable, Presidential polity with a tiny electorate.

Djibouti gained political independence from France only in 1977. It has a minuscule GDP, in both absolute and per-capita terms. Djibouti owes both its existence and its current diplomatic significance for Beijing to its strategic location. Its territories overlook the southern entrance to the Red Sea and provide a natural port and railhead for its giant neighbor Ethiopia. Both factors are central to understanding the pivotal position that it plays for China. France ruled Djibouti from the late 19<sup>th</sup> century but retained considerable influence. French forces were scaled back in the 1990s, yet Djibouti remains France's largest military base in Africa. French troops underpin the EU's anti-piracy force in Djibouti and cooperate closely with US forces; they also manage the firing ranges and desert training facilities now being used by Chinese forces.

Two, interlinked domestic political characteristics are of relevance to the analysis of Djibouti's bilateral ties with China. Firstly, power is highly personalized. President Guelleh's control rests on a patronage-based polity. Economic “rents” accrue from foreign military bases and access to economic assets, particularly port fees. Revenues are then redistributed to maintain control and legitimacy. Secondly, this patronage-based political system in part accounts for Djibouti's unusual flexibility and innovation in terms of foreign policy. Nimble, often personalized foreign policy has repeatedly generated significant political and economic capital from inauspicious foundations – most recently in relation to China. Thus Djibouti's

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<sup>3</sup> Literature on Djiboutian foreign policy is rare; see Sonia Le Gouriellec, ‘Djibouti's Foreign Policy in International Institutions: The Big Diplomacy of a Small State’, in *African Foreign Policies in International Institutions*, eds. Jason Warner, Timothy M. Shaw, (London: Palgrave, 2018); David Styan, ‘Djibouti; small state strategy at a crossroads’, *Third World Thematics* 1(1), (2016), pp. 79-91; David Styan, *Djibouti; changing influence in the Horn's strategic hub*, (London: Royal Institute for International Affairs, 2013).

power and influence is disproportionately greater than the state's small size and ostensibly "dependent" roles would suggest. Influence is magnified through diplomatic presence in international fora, notably the African Union, the Arab League and *La Francophonie* grouping of French-speaking states.<sup>4</sup>

Schematically, Djibouti's regional and foreign policy roles can be viewed in four distinct ways. First, Djibouti is a bilateral bridge providing access to the sea for the Horn's regional hegemon, neighboring Ethiopia, whose foreign trade has overwhelmingly transited via Djibouti since the closure of Eritrea's ports by the Ethio-Eritrean border war of 1998. This bridge (or corridor) perspective is central to the argument about the sub-regional characteristics of MSRI investment in Djibouti; rail, port and pipeline projects all reinforcing this aspect.

Second, corresponding more closely to Djibouti's own official "Vision 2035" economic development framework, is its role as a gateway to the wider region. This is premised on the successful growth model of 'port-cities' such as Dubai and Singapore.<sup>5</sup> The vision promotes Djibouti as the Horn's natural regional and logistical hub. Although it pre-dates the China's MSRI, the vision effectively shares its "gateway" notion of linking Africa to world markets, the commercial objectives of CMG and the "connectivity" rationale of the MSR more broadly. The third dimension has sought to revive Djibouti's status as a maritime logistical hub for container transshipments. This has been most explicit since the 2008 opening by DPFZA of the Doraleh Container Terminal port, managed and part-owned by Dubai Ports World (DPW). This marketing of Djibouti as a global container port and hub emphasizes Djibouti's centrality to trade flows between Asia, Africa and Europe. Djibouti's relations with DPW soured after 2012 due to politically-charged legal issues. These ultimately resulted in the Djiboutian government nationalizing the port and revoking DPW's management license in 2018. China's MSRI investment thus offers an opportune alternative source of port finance and links to China's global shipping networks.

This role has been both reconfigured and boosted by the significant investment of China in infrastructure within both Djibouti and Ethiopia between 2012-18. There has been an abrupt shift from Djibouti's Arab partners (particularly the United Arab Emirates, owners of DPW) to Chinese and other Asian partners in terms of who promotes and funds this vision. The shift has mirrored the growth in economic and political ties between Beijing and Djibouti and the growth of MSRI-related investments in Djibouti; most notably the railway, Multi-Purpose Port and International Free Zone discussed below. For Djibouti, the MSR has greatly amplified long-standing aims both to consolidate the state's role as the Horn's pre-eminent port, and to boost its status as a transshipment hub.

The fourth aspect of foreign policy is Djibouti's unique role as host to China's only military facility on the MSR. Five years ago this author argued Djibouti was fast becoming an "international maritime and military laboratory" spawning new networks of naval, military and surveillance cooperation, both among NATO forces (above all United States/US, French

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<sup>4</sup> For details; see Le Gouriellec 'Djibouti's Foreign Policy, p. 399; Styan, *Small state strategy*.

<sup>5</sup> Djibouti's 'Vision 2035' plan, June 20, 2014, accessed September 15, 2018, <http://www.djibouti.dj/en/about-djibouti/djibouti-vision-2035/>

and EU), and between them and diverse Asian powers.<sup>6</sup> This trend has greatly accelerated in the intervening years with China's promotion of the MSRI and the establishment of China's naval facility in Doraleh in 2017.

### *Chronology and context: China's relations with Djibouti*

Djibouti's ties with China can be divided into three phases. The first phase opened with Djibouti establishing formal diplomatic relations with the People's Republic of China (PRC) in January 1979. The republic's first President, Hassan Gouled Aptidon, made the first of three state visits to Beijing later in 1979. In terms of Beijing's overall Africa policy, for two decades, there was nothing remarkable about ties with Djibouti, which barely feature in a comprehensive 2009 overview of Chinese aid to Africa.<sup>7</sup> A second phase witnessed the start of Chinese anti-piracy patrols. The elderly President Aptidon was replaced by his nephew, Ismael Omar Guelleh in 1999. Guelleh made an official visit to China in 2001 and attended his first Beijing FOCAC summit in November 2006. Closer contemporary bilateral relations was anchored primarily in maritime logistics; Djibouti's port providing bunkering and services for the growing number of Chinese ships transiting the Gulf of Aden (Djibouti's importance for western and Asian navies grew as Aden, the region's principal port became increasingly dangerous; in October 2000 Al-Qaeda attacked the USS Cole there). This factor reflected the Chinese navy's strategy of using anti-piracy as a springboard to a global presence. In 2008, China launched its first anti-piracy missions in the Indian Ocean and Gulf of Aden; its marines exchanging fire with Somali pirates for the first time in January 2009.<sup>8</sup> Yet it would be incorrect to say that China's anti-piracy activities in the region from 2008 immediately prompted close bilateral ties. Beyond anti-piracy patrols, delegation visits were rare and there was no Chinese military attaché in Djibouti. However, ties were upgraded in July 2012, during President Guelleh's second state-visit, to the 5th FOCAC conference. This led to the establishment of a bilateral 'Joint Ministerial Commission' and the deepening of civil, naval and military ties. These in turn reflected Beijing's formulation of MSRI strategies in 2013 and the acceleration of infrastructure investments in the Horn of Africa as a whole.

The contemporary period of bilateral ties, 2012-19, has been marked by growing MSR investment and broader 'strategic alliance'. The July 2012 meetings came as Ethiopia, China, and Djibouti agreed to fund the renovation of the Ethio-Djibouti railway and construct associated port-facilities in Djibouti. Ethiopia had long sought to renovate the dilapidated French rail line to Djibouti's port. The aforementioned closure of Eritrea's ports to Ethiopian trade, coupled with Ethiopia's accelerating economic growth prompted severe bottlenecks in Djibouti's ports. Despite numerous previous Western and multilateral feasibility studies, funding was not forthcoming prior to China's 2012 offer.

### **China and MSRI infrastructure projects in Djibouti**

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<sup>6</sup> Styan, *Djibouti; changing influence*, p. 12.

<sup>7</sup> Deborah Brautigam. *The dragon's gift; the real story of China in Africa*. (Oxford: OUP, 2009), p. 83.

<sup>8</sup> Andrew S. Erickson and Austin Strange. *Six Years at Sea... and Counting: Gulf of Aden Anti-Piracy and China's Maritime Commons*. (Washington DC: Jamestown Foundation, 2015).

The contemporary phase of bilateral ties between China and Djibouti comprises four distinct components. Firstly, at the heart of the relationship are the two infrastructure projects integral to the MSRI in the Horn of Africa: the Ethio-Djiboutian railway and the Multi-Purpose Port (MPP) at Doraleh in Djibouti. This connects the rail project to the Red Sea, Suez and the Indian Ocean. In addition, China has also constructed several small ports and a vast water conduit from Ethiopia. South of Djibouti's capital, an oil terminal and Sino-Djiboutian Liquid Natural Gas plant are also under construction. This will be linked to Chinese-funded hydrocarbon development in Ethiopia's southeastern Ogaden region via a pipeline.<sup>9</sup> The second component of China's ties with Djibouti comprises direct ownership of Djiboutian assets. In 2013 the state-owned CMG purchased almost a quarter of the shares in Djibouti's port authority. Three years later, it sought a similar equity slice of Ethiopian Shipping Lines, the Ethiopian state-owned shipping company whose vessels use Djibouti as their home-port. Thirdly, the number of programs in Djibouti funded with Chinese aid have sharply increased. These include new educational facilities and scholarships, a state-of-the art Diplomatic Institute for the Ministry of Foreign Affairs, a new military hospital, and telecoms and military assistance. The fourth and final component comprises China's first permanent overseas naval facility, located alongside China's new MPP.

### *China and the Djibouti-Ethiopia rail-link*

The 'strategic partnership' which has evolved over the last five years reflects the fact that since 2012 China's has become Djibouti's largest inward investor, thanks largely to the aforementioned rail link to Addis Ababa, with its associated infrastructure, and the aforementioned MPP, with its associated Djibouti International Free Trade Zone (FTZ). The backbone of China's investment in the Horn is the renovated Ethio-Djibouti railway. Full commercial services began in 2018. At its inauguration in 2016, China's ambassador to Ethiopia La Yifan claimed: '[I]t is the first standard gauge electrified railroad on the continent built with Chinese standards and technology, and certainly it will not be the last.'<sup>10</sup> The 756 kilometer railway is poised to enhance regional economic integration in the Horn. The railway is arguably the most substantive, tangible component of the MSRI in East Africa to date. Its role is not simply to facilitate trade via the ports in Djibouti, but to provide Ethiopia's burgeoning industrial zones—part-planned and financed by China, now occupied by Chinese and other companies producing for a global market—with a maritime outlet.

The China-led renovation project cost an estimated \$3.5 billion, financed 70 percent by China Export-Import Bank (Ex-Im Bank) and 30 percent by the Ethiopian government, for the 650km tranche which traverses Ethiopia. The final 100km segment in Djibouti was also built by China Railway Construction Corporation (CRCC), but under a separate contract which the Djiboutian government initialed in February 2012. Valued at \$505 million, wrangles subsequently emerged in 2015 over whether the Djiboutian government or China was responsible for the costs of electrifying the line. This was resolved via the CRCC taking an equity stake in Djibouti's portion of the rail operating company. This incident suggests

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<sup>9</sup> Led by China's Poly CGL Group, see: 'Réalisation d'une série d'accords entre le gouvernement djiboutien et le Group chinois Poly CGL', ['A series of agreements between the Djiboutian government and the Chinese group Poly CGL'], *Agence Djiboutienne d'Information*, May 13, 2018, accessed September 15, 2018, <http://www.adi.dj/>.

<sup>10</sup> 'Ethiopia-Djibouti railway inaugurated', *Railway Gazette*, October 5, 2016.



limited financial foresight and skill from the Djiboutian government in negotiating Chinese contracts.<sup>11</sup>

Analyzing the financing and management of the railway also underscores the problematic asymmetries in trying to understand China-Ethiopian ties separately from those with Djibouti. In the Ethiopian case, the Addis-Djibouti railway is just one component in an ambitious national rail expansion plan. The same Chinese companies who built the Djibouti line had also constructed the Addis Ababa's Urban Light Railway system, inaugurated in late 2015.<sup>12</sup>

### *China's Doraleh MPP Facility*

Commercially the MSRI is, above all, about aligning the 'connectivity' of global shipping lanes and ports and with Chinese capital. The new Chinese owned and constructed Doraleh MPP encompasses container, general and bulk cargo facilities. Work on the port began in mid-2013. The inauguration of the port was held on 24 May 2017 in the presence of the CEOs of major Chinese construction and maritime corporations, including CMG and Dalian Ports. The 1.2 km quayside provide deep-water moorings that can accommodate up to six of the world's largest cargo ships simultaneously.<sup>13</sup> The MPP cost \$590 million, jointly financed by DPFZA and CMG, consolidating CMG's role on the MSR.<sup>14</sup>

Contractually the Doraleh MPP is separate from the surrounding Djibouti International FTZ (DIFTZ). However, Chinese management of the DIFTZ was announced in January 2016, at the same time as new regulatory frameworks for Chinese banks and transshipment companies operating in Djibouti. The first phase of DIFTZ opened in July 2018. If and when it is completed DIFTZ will encompass 4,800 hectares and cost \$3.5 billion; the largest FTZ on the continent. Such FTZs are an integral part of the MSRI and in terms of the Horn of Africa are planned to be linked by road and rail to inland logistics centers close to Chinese industrial parks in highland Ethiopia. DIFTZ enhances China's commercial presence in the Red Sea, COSCO and other Chinese companies having established comparable ports closer to Suez, further north in the Red Sea.<sup>15</sup> While the rail and port investments are key elements in the MSRI, Djibouti hosts a third significant Chinese project, the \$340 million (95 percent covered by China Ex-Im Bank loans) aqueduct between Ethiopia and Djibouti. This is

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<sup>11</sup> Except as otherwise noted, all amounts herein are in United States dollars (USD).

<sup>12</sup> On Ethiopia's broader ties with China, see Aaron Tesfaye, 'Ethiopia, China and the West' in *China and Africa; building peace and security cooperation on the continent*, eds. Chris Alden et al. (London: Palgrave, 2017).

<sup>13</sup> 'Djibouti's Doraleh Port officially opens', *Xinhua*, May 24, 2017, accessed September 15, 2018, [http://www.xinhuanet.com/english/2017-05/24/c\\_136312120.htm](http://www.xinhuanet.com/english/2017-05/24/c_136312120.htm).

<sup>14</sup> For details of CMG's global role in the MSRI see: Mathieu Duchatel and Alexandre Sheldon Duplaix, *Blue China: navigating the maritime silk road to Europe*. (Brussels: European Council on Foreign Relations, April 2018), p. 15.

<sup>15</sup> China has invested in Egypt's Port Said and al-Adabiya facilities. David Shinn, 'China's Power Projection in the Western Indian Ocean', *China Brief* 4, (2017), accessed September 15, 2018, <https://international.thenewslens.com/article/66502>

capable of piping 100,000 m<sup>3</sup> per day of water to alleviate arid Djibouti's acute water shortages. Ethiopia already supplies Djibouti with hydro-electricity.<sup>16</sup>

Outlining the specific MSRI projects above, it is worth stressing that, there is a complete absence of critical public policy debate within the country on any aspects of the MSRI, be they good or bad, largely because public discourse is tightly controlled. Domestic media consists uniquely of state-owned TV, radio and press agency reports. This reflects the highly controlled patronage nature of public and political life more generally in a state with a tiny salaried elite, almost entirely dependent upon employment in the civil service. Moreover, there are no fora for airing debates or grievances; 'civil society' or think-tanks are non-existent, unlike in neighboring Ethiopia. Thus there is an absence of critical discourse on practical aspects of the impact of the MSRI, notably the impact of Chinese investment on job creation. The MSRI has brought relatively little employment to Djibouti; CMG and state construction companies importing the bulk of their labor. Nor is there debate on the environmental impact of infrastructure works on the Doraleh littoral, or Djibouti's growing debt burden owed to China.<sup>17</sup>

This, quiescent aspect of domestic political life Djibouti clearly underpins our second variable, the manner in which local politics influences Chinese interaction with the state authorities. China has been able to build-up extensive ties with the Djiboutian President, his ministers and wider government, without attracting critical attention from within the country. Given the longstanding presence of numerous other foreign military bases in the country, nor is the arrival of Chinese troops controversial domestically.

### **China's naval and military facilities in Djibouti**

The text's second analytical concern is to examine China's rationale in opening its first permanent overseas naval facility in August 2017. Here both geostrategic and domestic political variables are clearly of some relevance. Chinese authorities routinely deny any direct linkage between the MSR and the increasingly global reach of China's navy, the People's Liberation Army Navy (PLAN). Thus, in Beijing's version, the establishment of a permanent naval "logistics center" in Djibouti reflects not the country's status as a MSR hub, but rather the PLAN's decade-long engagement in multilateral anti-piracy operations in the region and China's broader commercial and multilateral international engagements.

However, the PLAN base nestles alongside CMG's vast new MPP and they share quaysides. Thus in practice the military and civil aspects are intertwined. PLAN's presence in Djibouti puts into practice Beijing's 2015 Military Strategy white paper. This projected PLAN's role as protecting strategic sea lines of communication (SLOCs), maintaining anti-piracy operations around the Horn of Africa, and supporting an enlarged Chinese role in

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<sup>16</sup> 'Chinese funded Ethio-Djibouti water project...', *Construction Review*, June 27, 2017, accessed September 15, 2018, <https://constructionreviewonline.com/2017/06/chinese-funded-ethio-djibouti-water-project-to-be-inaugurated-soon>.

<sup>17</sup> The one exception concerns the controversial activities of Chinese fishing vessels in Djiboutian waters. 'Chinese trawlers snapped fishing in Djibouti's protected waters', *France 24*, May 26, 2017, accessed August 30, 2018, <http://observers.france24.com/en/20170526-chinese-trawlers-are-photographed-fishing-djibouti%E2%80%99-protected-waters>.

international peacekeeping.<sup>18</sup> In local terms China is only the most recent military arrival in Djibouti's crowded military real-estate market, much of it developed as a result of multilateral anti-piracy patrols in the Gulf of Aden. Somewhat paradoxically, it is precisely the presence of a range of other great powers with bases in Djibouti which has led to the development of China's facility. China is just one of many participants, both in regional anti-piracy activities and within a broader equation of "base politics" in the region.

In the past decade, the longstanding French garrison has been supplemented by the arrival of other foreign powers; the US's AFRICOM facility, the EU anti-piracy force EUNAVFOR, Japan and now China all establishing bases in the decade 2008-17. This can be usefully contrasted with the dynamics of great-power rivalry for influence in Central Asia during the same period. Here southern states of the former Soviet Union such as Kyrgyzstan sought to play-off Moscow, Washington, and Beijing as each searched for influence and military access to the strategically important region, bordering Afghanistan. However, writing about great power rivalry in Central Asia, in 2012, Cooley argued that: "[T]he interaction among the United States, Russia, and China in the region has intensified over the decade, but that the zero-sum 'competition' and the pursuit of relative gains has not been the exclusive nor even the dominant form of great power interaction. All three powers have forged tactical partnership with the other members of the 'strategic triangle'." <sup>19</sup>

As explained below, this phenomena of partnership and cooperation has been even more pronounced in the Horn of Africa. President Guelleh first hinted at a possible Chinese military presence in Djibouti to journalists in April 2015. Just a week after US Secretary of State John Kerry had made his inaugural visit to Djibouti that May, Guelleh confirmed the Chinese plan. The fact that the US opposed China's presence in Djibouti, but had to coexist at close quarters with China (the bases are barely 12km apart) goes to the heart of the argument that Djibouti's President wields considerable influence. In negotiating the terms of China's navy's construction of its logistics facility in Djibouti in 2014-15, President Guelleh and his entourage were able to draw on earlier experience hammering-out the financial and legal terms of agreements with western powers. Similarly, allowing China to construct a base adjacent to western facilities simultaneously increased Djibouti's negotiating power – and base rent rates – vis-à-vis the US and other allies; while concurrently strengthening the independence and leverage of Djiboutian foreign policy. In this sense, both of our variables, Djibouti's geostrategic position, and its leaders' political longevity and experience of negotiating military access, gave it greater leverage than other states negotiating with China along the MSRI, such as Sri Lanka, Myanmar or the Maldives <sup>20</sup> Comparatively, Djibouti has thus been in a relatively strong position re China. In the cases of both Sri Lanka and the Maldives, the principal 'counter-power' is India. However, Indian interests have been such

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<sup>18</sup> PRC, *State Council, China's Military Strategy* (Beijing, 2015). English version: accessed January 15, 2019, [http://www.chinadaily.com.cn/china/2015-05/26/content\\_20820628.htm](http://www.chinadaily.com.cn/china/2015-05/26/content_20820628.htm),

<sup>19</sup> Alexander Cooley, *Great Games, Local Rules: The New Great Power Contest in Central Asia* (Oxford: Oxford University Press, 2012), p. 7.

<sup>20</sup> For comparative studies of the MSR and such states, see Jean-Marc F. Blanchard, (ed.) *China's maritime silk road initiative and South-East Asia* (London: Palgrave Macmillan, 2018); Jean-Marc F. Blanchard, 'China's Maritime Silk Road Initiative and Southeast Asia: a Chinese 'pond' not 'lake' in the Works', *Journal of Contemporary China* 27(111), (2018), pp. 329-343,

that neither government has been able to systematically play New Delhi off against Beijing for financial benefit.

China's naval base is in practice a heavily-militarized annex alongside the Doraleh civilian MPP, built and managed by CMG. The opening ceremony in August 2017 was covered extensively in both western and Chinese media; China's coverage emphasizing Djibouti's links to the MSR framework.<sup>21</sup> The facility can accommodate up to 400 marines and comprises ammunition depots, an office complex, a heliport with a short airstrip, and other facilities.<sup>22</sup> PLAN ships can moor at the vast Chinese (CMG)-owned quayside a few hundred meters away, which is large enough to accommodate all but two ships in China's fleet.<sup>23</sup> By 2019 a separate jetty had also been constructed linked directly to the base. In April 2018 President Guelleh stated China was paying \$20 million annually for the facility, noting that the Chinese base is barely a tenth the size of the US facility at Camp Lemonnier, for which they pay \$60 million per annum.<sup>24</sup> The reality is that such revenues are neither transparent nor publicly audited, again reinforcing the argument that the highly centralized, patronage-based polity enables Guelleh to exercise considerable autonomy in his dealings with rival foreign powers; playing one off against another.

China itself has advanced several reasons for opening a naval facility. In November 2016, a defense ministry spokesman said China planned to use the base to better implement its international obligations and to protect the nation's overseas interests but not to seek 'military expansion.' Four distinct roles and rationales for the base are prominent in China's public discourse. The first is to bolster and protect China's fast growing portfolio of investments in the region. Secondly, anti-piracy operations have been central to China's role in the region. The base enhances technical support to Chinese anti-piracy and other naval and merchant vessels in the region. A third factor is the increased presence of Chinese nationals in Africa and the Middle East. During the 2011 war in Libya the Chinese government found itself

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<sup>21</sup> For example: 'PLA establishes base in Horn of Africa', *Chinese News Agency*, July 12, 2017, [http://eng.mod.gov.cn/news/2017-07/12/content\\_4785301.htm](http://eng.mod.gov.cn/news/2017-07/12/content_4785301.htm); 'China stages 1st live fire drills at overseas base in Djibouti', *Russia Today*, September 27, 2017, <https://www.rt.com/news/404593-china-military-drills-djibouti/>, all accessed September 15, 2018.

<sup>22</sup> See: Bhat, Col. Vinayak, 'China's mega fortress in Djibouti could be model for its bases in Pakistan', September, 27, 2017, accessed September 15, 2018, <https://theprint.in/security/china-mega-fortress-djibouti-pakistan/11031>.

<sup>23</sup> Erica Downs, Jeffrey Becker and Patrick de Gategn. *China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base*. (Washington D.C.: Centre for Naval Analyses, July 2017), p. 6.

<sup>24</sup> For a French view, see Sébastien Le Belzic, 'Chronique - Djibouti, l'avant-poste militaire de la Chine en Afrique' ['Djibouti, China's outpost in Africa'], *Le Monde*, July 17, 2017, accessed 15 September 2018, [https://www.lemonde.fr/afrique/article/2017/07/17/djibouti-l-avant-poste-militaire-de-la-chine-en-afrique\\_5161535\\_3212.html](https://www.lemonde.fr/afrique/article/2017/07/17/djibouti-l-avant-poste-militaire-de-la-chine-en-afrique_5161535_3212.html). President Guelleh gave the base rental figures in an interview with *Jeune Afrique*, 'Ismail Omar Guelleh: « Djibouti n'est pas à vendre »', ['Djibouti is not for sale'], April 25, 2018, accessed September 15, 2018, <http://www.jeuneafrique.com/mag/551088/politique/ismail-omar-guelleh-djibouti-nest-pas-a-vendre/>.

unable to evacuate its citizens without help from western powers; by the 2015 evacuation of Yemen, Chinese forces were better prepared. With far more Chinese living in all the states of East Africa, the permanent base and logistics in Djibouti address this weakness. Fourthly, China now has a growing number of peacekeepers deployed in multilateral roles, particularly with the UN in Africa. In 2017, for example, 1000 served in nearby South Sudan, 600 in Liberia, and 400 in Mali.<sup>25</sup> Beijing has pledged to increase these numbers and the Djibouti facility clearly enhances China's ability to project military power in the Red Sea and Indian Ocean, and to also deploy troops in Africa. This is the same role Djibouti has long played for France and the US.

Critical English-language coverage of China's military presence has been extensive from both US and above all Indian sources. In 2016 Djiboutian diplomats were responsive to western political and media criticism of China's increasingly assertive role in the Indian Ocean. With US senators criticizing China's presence, in August 2016 Djibouti's foreign minister made a series of statements in Washington aimed at reassuring western allies, stating:

We welcome China's presence in Djibouti, just as we previously welcomed forces from the US, NATO, France, the UK, Italy, and Japan, who are present in our country. These are vital strategic allies for Djibouti as we fight against terrorism and piracy, which remain significant threats to the international community and the global economy.<sup>26</sup>

President Guelleh echoed this point:

I know there exists an obsession about the Chinese presence. But it is unfounded and one-sided. The Chinese don't have a problem to cohabit with westerners in Djibouti, on condition that they don't constantly spy on their installations. However, the Americans are obsessed; they constantly repeat to use that the Chinese presence is an irritant for their operations'.<sup>27</sup>

### *US-China: rivalry or cooperation in the Red Sea?*

Clearly there are US sensitivities over the PLAN's presence; when US Secretary of State Rex Tillerson visited Djibouti in March 2018 he expressed unease over Chinese maritime ambitions. These were made more explicit in a hawkish denunciation of China's role in Djibouti in December 2018, as US National Security Advisor John Bolton launched a new US Africa strategy. The only physical US-China friction to date arose in May 2018; the US accusing the Chinese of attempting to endanger US pilots with weapons-grade lasers,

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<sup>25</sup> On China's growing role in peacekeeping, see Chris Alden et al. eds. *China and Africa: building peace and security cooperation on the continent* (London: Palgrave, 2017)

<sup>26</sup> Mahmood, Ali Youssouf. 'We Welcome China In Djibouti, Just As We Welcomed The West', *Defenseone.com*, 2016, accessed September 15, 2018, <https://www.defenseone.com/ideas/2016/08/we-welcome-china-djibouti-just-we-welcomed-west/130765/>.

<sup>27</sup> Le Belzic, 'Djibouti, l'avant-poste militaire de la Chine....'

something Beijing strenuously denied.<sup>28</sup> The notion that such conflict is inevitable appears misplaced. Regionally, Chinese and western agendas are allied, aiming both to ensure freedom of navigation and to manage regional threats. China was a major investor in Yemen, including in the port of Aden, and has played an active diplomatic role there since 2015. Like the US, it also has close economic and political ties to Saudi Arabia and the UAE, the main combatants in Yemen. Djibouti's tight, congested airspace and port facilities necessitate tacit cooperation and Chinese, US, Japanese and EU vessels also all share the same refueling facilities. In practice, the French military still manages key local military zones. China is simply the latest customer to use Djibouti's remote firing ranges and rugged battle training zones. China's navy generated both domestic and international legitimacy during a decade of cooperation over anti-piracy activities in the region. It is plausible may that its new base in Djibouti will act as much as a fulcrum for quiet multilateral military cooperation with NATO powers, as a new geostrategic point of tension.

### **Djibouti: broader policy lessons applicable to small state on the MSR?**

#### *Replicating CMG's standard Port and Free Zone template in Africa?*

A comparative concern for analysts of Chinese port investments in Africa and elsewhere on the MSR is the central role of CMG. As noted above, CMG holds a minority stake in the national Port Authority and is the main investor in the Doraleh's MPP and associated DIFTZ; it is by far the largest Chinese company operating in Djibouti. Several analytical questions are pertinent to CMG's role on the MSR. Firstly to what extent is CMG acting as a 'normal' profit-maximizing commercial concern? If it is, what time-frame do its shareholders expect dividends on large African infrastructure projects with unproven revenue flows? Secondly, as a SOE, are CMG's actions in Africa and Asia guided primarily by the Chinese state for political rather than commercial reasons? If so, while ostensibly seeking to replicate the "Shekou model" across the MSR, CMG seems to have played the role of a vanguard investor and foreign-policy coordinator in several key hubs on the MSR. There is relatively little literature which seeks to disaggregate disparate Chinese commercial and political interests within the overarching MSRI framework.<sup>29</sup>

Nevertheless, CMG's role in Djibouti does appear to correspond to a fairly standardized, "one-size-fits-all approach" template to port and free zone development construction and finance in different locations on the MSR. The conglomerate's first ever overseas investment was in 2009, in the port of Colombo in Sri Lanka.<sup>30</sup> Since then CMG has become a leading

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<sup>28</sup> On the laser allegations, see: 'US accuses China ...' *BBC*, May 4, 2018, accessed September 15, 2018, <https://www.bbc.com/news/world-asia-china-43999502>.

<sup>29</sup> Relatively few scholars have sought to disaggregate foreign policy actors and to date there appears to be no firm-level analysis of factors shaping the BRI. Rare exceptions include Li Xue, 'China's Foreign Policy Decision-Making Mechanism and 'One Belt One Road' Strategy', *Journal of Contemporary East Asia Studies* 5(2), (2016), pp. 23-35; Lee Jones and Shahar Hameiri, 'Rising Powers and State Transformation: The Case of China', *European Journal of International Affairs* 22(1), (2016 pp. 72-98.

<sup>30</sup> Hong Zhang, "Beyond 'Debt-Trap Diplomacy': The Dissemination of PRC State Capitalism", *China Brief* 19(1), (2019), accessed January 5, 2019, <https://jamestown.org/program/beyond-debt-trap-diplomacy-the-dissemination-of-prc-state-capitalism>.



actor on the MSR, with investments in 18 ports worldwide. French analyst Thierry Pairault notes that the role CMG has played in Djibouti largely mirrors that which they played elsewhere in Africa, notably in Tangiers in Morocco and Lomé in Togo.<sup>31</sup> Subsequent prospective port projects - most notably the vast port and free zone in proposed in Bagamoyo, close to Zanzibar in Tanzania – does suggest a standardized approach.<sup>32</sup>

Djibouti's development as a hub on the MSRI follows the pattern established in Sri Lanka, where CMG invested first in the port of Colombo, and then Hambantota, whose subsequent debt and lease-arrangement is outlined below.<sup>33</sup> CMG's role in Djibouti dates from July 2011 when the para-statal *Port Autonome International de Djibouti* (PAID) re-assumed direct management of its old port facilities within Djibouti-ville. In January 2013 PAID was restructured as a private company. CMG acquired a 23.5 percent share, for \$85 million, alongside the Djiboutian government, the port authority being renamed the Djibouti Port and Free Zone Authority (DPFZA). As the rail and port projects were nearing completion in 2016-18, CMG assumed a higher profile in bilateral ties. In April 2016 CMG announced a 'strategic commercial partnership' for Djibouti with Qingdao, China's third largest port. In 2017, Li Xiaopeng, president of CMG, outlined his vision for Djibouti to *China Daily*:

Making full use of Djibouti's geographical advantages, we are in the process of making the country the 'Shekou of East Africa,' a hub for regional shipping, logistics and trade. We will use our experience in Shekou and adjust the model to local conditions. [...] The group wants to use the model of Shekou, dubbed 'Port-Park-City'.<sup>34</sup>

Pairault has argued plausibly that Djibouti's experience of complex, interlocking shareholdings of CMG, Dalian ports and - significantly - Chinese telecommunication companies, in the joint-ownership structures of the Doraleh FTZ, closely mirrors the

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<sup>31</sup> See: Thierry Pairault, *Djibouti et les routes électroniques de la soie* [*missing English Translation*], (Paris: EHESS 2017); Thierry Pairault, 'La China Merchants à Djibouti : de la route maritime à la route numérique de la soie', *Revue Espace Géographique et Société Marocaine*, [*missing English Translation*], No. 24-25, 2018 (REGSM: Rabat)

<sup>32</sup> On Bagamoyo, see: Léautier, F. Schaefer F. Wei Shen "The Port of Bagamoyo: A Test for China's New Maritime Silk Road in Africa", *Diplomat.com*, December 1, 2015, *missing access date*, <https://thediplomat.com/2015/12/the-port-of-bagamoyo-a-test-for-chinas-new-maritime-silk-road-in-africa>; Nick van Mead, 'China in Africa: win-win development, or a new colonialism?', *The Guardian*, July 31, 2018, accessed November 15, 2018, <https://www.theguardian.com/cities/2018/jul/31/china-in-africa-win-win-development-or-a-new-colonialism>.

<sup>33</sup> 'China Merchants Port to invest up to US\$1.12b in Sri Lanka's Hambantota Port', *South China Morning Post*, July 25, 2017, accessed September 15, 2018, <https://www.scmp.com/business/companies/article/2104080/china-merchant-port-invest-us112b-sri-lankas-hambantota-port>.

<sup>34</sup> Deng Yanzi, 'CMG wants to make African port of Djibouti 'new Shekou'', *China Daily*, July 3, 2017, accessed 15 September 2018, [http://www.chinadaily.com.cn/business/2017-03/07/content\\_28455386.htm](http://www.chinadaily.com.cn/business/2017-03/07/content_28455386.htm). The notion of a "Shekou model" refers to the port suburb of Shenzhen, the home of China Merchants Group in Guangdong.

development of Chinese commercial structures elsewhere in Africa.<sup>35</sup> China's blueprint for Djibouti as a key hub on the MSR was promoted vigorously to the government by CMG and the former vice-president of the World Bank, Lin Yifu, in December 2015. At the same time, CMG purchased a 15 percent stake in the digital data giant IPZ, who play a key role in China's promotion of global e-payments systems. CMG and IPZ jointly formed "Silk Road E-Merchants" to promote a "Global Port Alliance", a networked system of e-payments and container logistics linking 29 ports and 55 container terminals on the MSR.<sup>36</sup> Locally, it is Djibouti which hosts Africa's first branch of the 'International Silk Road Bank' and a 'Big Data Center' run by IPZ.

### ***Djibouti and debt: MSR mismanagement rather than "predatory debt-diplomacy" in Africa?***

Studying the evolution of Djibouti's debts provides some insight into the heated, broader debates over China's alleged "debt diplomacy" and the BRI. The speed and scale of China's incorporation of diminutive Djibouti into the MSR framework clearly beg questions as to the financial sustainability of the commercial and concessional loans which Djibouti has contracted with China. However, Djibouti's experience suggests that that debt leverage is *not* intentional tool of China's BRI policies but reflects a lack of foresight and adequate planning by both African and Chinese sides.

In 2016, total Djiboutian external debt stood at \$2.3 billion; the IMF listing a further \$5 billion of planned investments within the 'Vision 2035' portfolio. All but one of these were Chinese projects, including \$3 billion for the proposed Liquefied natural gas (LNG) pipeline from Ethiopia's Ogaden region.<sup>37</sup> As noted earlier, the modalities of the financing the railway has been a regular source of unease between Beijing and Djibouti, with several wrangles, including a stop-gap 'temporary', \$20 million debt-for-equity-swap to electrify the line, the details of which were agreed in August 2016.<sup>38</sup>

In April 2017 the IMF highlighted that non-concessional loans from China were not sustainable given Djibouti's fragile fiscal base.<sup>39</sup> By 2018, the level of indebtedness of

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<sup>35</sup> Pairault, *Djibouti et les routes électroniques de la soie*, pp. 4-6.

<sup>36</sup> Thierry Pairault, 'La China Merchants à Djibouti ... p. 72. In April 2019 Bloomberg reported that IPZ had withdrawn from Djibouti, being replaced by a CMG subsidiary. Nizar Manek, 'China Merchants in talks...' April 17, 2019, accessed April 20, 2019, [https://www.bloomberg.com/news/articles/2019-04-17/china-merchants-in-talks-to-replace-ousted-djibouti-bank-partner?utm\\_content=business&cmpid=socialflow-twitter-business&utm\\_campaign=socialflow-organic&utm\\_medium=social&utm\\_source=twitter](https://www.bloomberg.com/news/articles/2019-04-17/china-merchants-in-talks-to-replace-ousted-djibouti-bank-partner?utm_content=business&cmpid=socialflow-twitter-business&utm_campaign=socialflow-organic&utm_medium=social&utm_source=twitter)

<sup>37</sup> IMF, *Djibouti: 2016 Article IV*, Table 1, (Washington DC: IMF, April 6, 2017), p. 22. For a contextualization of debt see: 'China, Djibouti, and the NYT: How Much Debt?' Blogpost, SAIS-CARI, March 1, 2017, accessed January 20, 2019, *China, Djibouti, and the NYT: How Much Debt?* Blogpost, SAIS-CARI, March 1, 2017.

<sup>38</sup> In an interview with the author in April 2015, Aboubaker Omar Hadi, the head of the DFZPA was candid about the confusion over financing, suggesting that revenues from the railway would allow a buy-back of the shares conceded to the Chinese to pay for electrification.

<sup>39</sup> IMF, *Djibouti: 2016 Article IV Consultation documents*.



African states to China due to BRI projects had gained a far higher international profile for three reasons. The most significant factor fueling allegations of “Debt Trap Diplomacy” on the MSR was the mid 2017 deal in which CMG obtained a 99-year lease on Sri Lanka’s indebted Hambantota in exchange for \$1.12bn. This sum included CMG covering the Sri Lankan government’s outstanding debts on the project. With Djibouti’s ports already part-managed by China (via CMG’s minority holding in the Port Authority), and the government’s weak fiscal position, to critics Djibouti appears vulnerable to China taking a larger stake in the Port if the state is unable to service its debts. The equation is compounded by Djibouti’s dispute with DPW over the management of the Doraleh Container Terminal, which culminated in Djibouti’s nationalization of the disputed container terminal in early 2018. This prompted many to conjecture that CMG or other Chinese groups would emerge as the eventual owners of the sequestered DPW shares, strengthening Chinese control of the Ethio-Djibouti corridor. Any link between China and the dispute is denied by Djiboutian ministers, who also claim they will be able to repay Chinese debts.<sup>40</sup> No tangible evidence has been offered to support a link between the DPW dispute and a Chinese takeover, beyond CMG’s existing stake in the port authority and Djibouti’s lack of funds to purchase the DPW’s shares.

The second reason for the focus on African debt and the BRI was that allegations of Chinese debt-diplomacy in Djibouti featured prominently in the US national security advisor John Bolton’s presentation of US African policy in December 2018. Bolton denounced what he termed China’s “strategic use of debt to hold states in Africa captive to Beijing’s wishes”, claiming that:

“[...] soon, Djibouti may hand over control of the Doraleh Container Terminal, a strategically-located shipping port on the Red Sea, to Chinese state-owned enterprises” adding. “Such predatory actions are sub-components of broader Chinese strategic initiatives, including “One Belt, One Road”—a plan to develop a series of trade routes leading to and from China with the ultimate goal of advancing Chinese global dominance.”<sup>41</sup>

Thirdly, the “debt-diplomacy” debate on BRI was further enflamed by the revelation in December 2018 that the Kenyan authorities had secretly pledged Beijing a stake in Mombassa port as security against the Nairobi-Mombassa railway project, a key BRI investment comparable to the Ethio-Djibouti railway link. A \$2.3bn loan from Exim Bank to Kenya Railways Corporation was secured by offering China an equity stake in the profitable Kenya Port Authority in the event of default.<sup>42</sup> Again, there is little evidence either that

<sup>40</sup> Chris Wright, ‘Africa: Why Djibouti’s China debt is raising the alarm’, *Euromoney*, January 7, 2019, accessed January 10, 2019, <https://www.euromoney.com/article/b1clfx2rfvlhx6/africa-why-djiboutis-china-debt-is-raising-the-alarm>.

<sup>41</sup> Abdi Latif Dahir, ‘The Trump administration’s Africa policy is all about countering China’s influence’, *Quartz Africa*, December 14, 2018, accessed January 10, 2019, <https://qz.com/africa/1495859/bolton-unveils-trump-africa-strategy-to-counter-china-russia>.

<sup>42</sup> *The East African*, ‘Mombasa Port at risk as audit finds it was used to secure SGR loan’, December 20, 2018, accessed January 5, 2019, <https://www.theeastafrican.co.ke/business/Mombasa-port-SGR-loan-default-Chinsa/2560-4903360-clh5nn/index.html>.

KRC will default, or that China desires that outcome as an indirect way of acquiring port shares. However, Kenya has a combative and investigative press, unlike Djibouti or Ethiopia, where the precise terms of Chinese contracts and debt have not been subject to public scrutiny.

The muddled state of Djibouti's financial ties with China, and the Kenyan scandal does raise the broader question of poor assessment of profitability and African states' repayment capacities. This was noted in October 2018 at a BRI symposium in Hong Kong by a leading official at China's Export and Credit Insurance Corporation, Sinosure, who suggested that that Sinosure might be facing a \$1bn loss on their loans to the Addis-Djibouti railway due to mismanagement. He stated that; "developers and financiers of projects in developing nations supported by Beijing's 'Belt and Road Initiative' need to step up their risk management to avoid disaster."<sup>43</sup> Although precise details are not in the public domain, discussions on the rescheduling of Ethiopian and Djiboutian railway debt began on the margins of the FOCAC 2018 summit.

### **The Case of Djibouti and its Lessons for the MSRI**

This analysis has a number of important findings that have broader import for analysts of the MSRI/BRI and Chinese foreign policy and the BRI. First, location does matter. A country that is well placed strategically and/or economically is likely to garner a meaningful role in China's MSRI as well as substantial Chinese FDI and infrastructure projects. However, a state's individual location does not tell the full story. The situation in the neighborhood also matters. To elaborate, in the Djibouti case, Djibouti gains added locational value because of its proximity to Ethiopia and key Ethiopian infrastructure.<sup>44</sup> As far as China's military base is concerned, location is a critical part of the story, but Djibouti itself became a suitable location for historical reasons, paradoxically because it had long experience of hosting French, US and EU military facilities. In short, one should not automatically expect China to establish a military base in a MSRI participant's state just because it is strategically located.

Second, an authoritarian polity does not necessarily attract China. While there appear to be certain advantages to dealing with a regime such as Guelleh's, there is nothing to suggest this drove China to Djibouti. Still, the Djibouti case underscores that authoritarian leaders have the ability to rapidly establish close economic and military ties with China, aided by the relative lack of democratic accountability, free press or credible opposition parties. Of course, democratic regimes may embrace the MSRI too, but if they do and there is domestic opposition to the MSRI, or elections bring a change of government, then the situation for the MSRI will likely be more challenging as witnessed in the cases of Sri Lanka, Maldives and Malaysia, where incoming administrations sought to cancel or renegotiate BRI contracts.

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<sup>43</sup> Eric Ng, "Botched Chinese railway project in Africa is a warning to belt and road investors", *South China Morning Post*, October 23, 2018, accessed October 30, 2018, <https://www.scmp.com/business/banking-finance/article/2170549/botched-chinese-railway-project-africa-warning-belt-and>.

<sup>44</sup> For additional discussion of the Ethiopia case, see Jean-Marc F. Blanchard's piece in this special issue. Jean-Marc F. Blanchard, 'Problematic Prognostications about China's Maritime Silk Road Initiative (MSRI): Lessons from Africa and the Middle East', *Journal of Contemporary China* 29(122), (2019).

The general point is that we need to take into account domestic politics when thinking about birth and development of the MSRI in individual countries.<sup>45</sup>

Third, “small” MSRI participants can wield agency. In terms of domestic African political dynamics and the broader trajectory of the MSR, the text has suggested that MSRI states can wield a surprising degree of agency if the circumstances are supportive. As for Djibouti, it has the ability to play off ostensibly rival foreign powers each seeking access to military facilities in proximity to the Bab al-Mandab’s geo-strategic location. Furthermore, it has an authoritarian President with extensive experience and skill in negotiating with great powers.

Fourth, there seems to be a template model for MSRI ports. As reported, CMG’s role in Djibouti corresponds to a fairly standard “one-size-fits-all approach” template to port and free zone development construction and finance used elsewhere on the MSR. Subsequent prospective port projects - most notably the blueprints for the vast port and free zone proposed in Bagamoyo, close to Zanzibar in Tanzania – support this finding. This view is supported by analyses of Chinese manufacturing in Africa. CMG’s role in a Chinese developmental state blueprint is also explicitly supported by Chinese advocates of such strategies, notably Justin Yifu Lin, who as we saw in section two, supported the Djibouti developments, played a key role in Ethiopia, and has since promoted such approaches more broadly in Africa.<sup>46</sup> As to whether or not this template comes “from above” or CMG, it is hard to divide the two. In Djibouti’s case the government’s own policy aims of enhancing the state’s role as a global maritime hub meshed closely with CMG’s belief that large-scale Chinese investment can loosely replicate a standard “template” drawn from the Shenzhen development model. Yet despite the creation of port, rail and free zone infrastructure the rapid economic transformation via a Shekou-type FTZ, transforming Djibouti into a “Shekou of East Africa” remains a highly improbable scenario even in the long-term.<sup>47</sup> Reasons include prohibitively high utility costs, an arid climate, searing temperatures, the lack of a domestic labor force. These all inform Chinese companies’ preferences for highland Ethiopia’s Chinese-backed manufacturing zones.<sup>48</sup> Thus Djibouti is likely to act essentially as a Chinese bridge to Ethiopia, remaining domestically essentially an entrepôt economy.

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<sup>45</sup> The crucial importance of domestic politics is stressed in Jonathan Fulton’s piece in this special journal issue. Jonathan Fulton, ‘Domestic Politics as Fuel for China’s Maritime Silk Road Initiative: The Case of the Gulf Monarchies’ *Journal of Contemporary China* 29(122), (2019).

<sup>46</sup> Justin Yifu Lin and Arkebe Oqubay, ‘Introduction’, in Lin and Oqubay (eds), *China-Africa and an Economic Transformation*, (Oxford: Oxford University Press, 2019); Arkebe Oqubay, ‘China’s Rise and Structural Transformation in Africa’, in Celstin Monga and Justin Lin, eds. *Oxford Handbook of Economics and Africa* (Oxford: Oxford University Press, 2014). Arkebe Oqubay is currently economic advisor to Ethiopia’s premier.

<sup>47</sup> For an informed, evocative account of CMG’s role in Shenzhen’s transformation - and of Yuan Geng, the company’s CEO who died in 2016, see Mary Ann O’Donnell’s blog <https://shenzhennoted.com>, particularly ‘Yuan Geng Memorial’ accessed September 15, 2018, <https://shenzhennoted.com/2016/02/01/yuan-geng-memorial/>.

<sup>48</sup> For contrasting views of Chinese manufacturing zones in Ethiopia, see: Greg Mills, ‘A Tale of Two Free Zones Learning from Africa’s Success’, (Johannesburg: Brenthurst Foundation, 2019), accessed February 1, 2019, <http://www.thebrenthurstfoundation.org/article/a-tale-of-two-free-zones-learning-from-africa->

Beyond the above, it should be noted that the Djibouti case does not suggest that ‘the Djibouti’s model,’ of a militarized naval facility alongside large (CMG-owned) civilian ports will be replicated elsewhere on the MSR. This is in part because Djibouti’s situation reflects four factors unique to it alone: these include its critical geostrategic location; the PLAN’s long-established presence in the region via anti-piracy activities; the relative ease of acquiring military facilities in a state with extensive experience of hosting foreign military bases; and a lack of alternative locations or receptive host states in Arabia and East Africa. In short, it is premature to assume that the Doraleh base will be the first of a series of Chinese naval bases in the Indian Ocean, or indeed elsewhere in Africa.<sup>49</sup> Despite much speculation, as of 2018 there was scant evidence to suggest that Beijing was planning to replicate Djibouti’s naval facilities in West African ports; for example, in Namibia’s Walvis Bay or Cameroon’s Kribi, both of which host large new Chinese-constructed civilian port facilities.

Nevertheless, even if China routinely denies any military dimension to the MSR, Djibouti’s experience indicates that one cannot understand China-Africa ties, or its decision to build a naval base in Djibouti, in abstraction from the PLA Navy’s role on the MSR and the Western Indian Ocean as a whole. Thus China’s presence (and the MSR) *in* Africa has to be examined in the context of shifts in global power relations *on* the high seas; it is easy to overlook that the MSR initiative is first and foremost *maritime*. As noted in section three, China’s 2015 Military Strategy white paper proposed a key strategic role for PLAN in protecting shipping lanes, anti-piracy operations and enhanced support roles for China’s UN peacekeeping missions; all of which feature in Djibouti’s role as a strategic hub on the MSR. Similarly, PLAN’s expansion evidently corresponds to Xi Jinping’s promotion of a more globally assertive China. This in turn partly explains the very considerable publicity accorded to Djibouti in Chinese policy discourse and media (which is objectively disproportionate given both how small Djibouti is, and how modest, relative to western powers’ facilities, the PLAN base is). Unlike the US, EU and Japan who in general seek to keep their military and naval activities under wraps in Djibouti, it is striking that China widely publicized the opening of its base.<sup>50</sup> The departure of the first troops for Djibouti, the base’s opening ceremony in August and the first ‘live-fire’ exercises in September 2017 all received extensive Chinese TV and news coverage. This underscores the degree to which the naval activities in and around Djibouti form an integral part of PLAN’s global ‘Blue Ocean’ soft power projection, for consumption both at home and abroad.<sup>51</sup>

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s-success/; Philip Giannecchini, Ian Taylor, “The eastern industrial zone in Ethiopia: Catalyst for development?”, *Geoforum* 88, (2018), pp. 28-35.

<sup>49</sup> Gwaddar in Pakistan, and Hambantota in Sri Lanka, also built by CMG, are most often cited as potential naval facilities, something China strongly refutes. ‘China Rejects Speculations About Use of Hambantota Port As Military Base China-Hambantota’, *PLA Daily*, April 16, 2017, accessed August 30, 2018, [http://english.pladaily.com.cn/view/2018-04/17/content\\_8006527.htm](http://english.pladaily.com.cn/view/2018-04/17/content_8006527.htm).

<sup>50</sup> On US secrecy, see: Craig Murphy, ‘Remote US base at core of secret operations’, *Washington Post*, October 26, 2012, accessed September 15, 2017, [missing web link](#).

<sup>51</sup> Andrew S. Erickson and Austin M. Strange. ‘China’s Blue Soft Power: Antipiracy, Engagement, and Image Enhancement’, *Naval War College Review*, 68(1), (2015), pp. 71-91. Domestic awareness of China’s growing naval power and its Djibouti base was enhanced by the movie “Operation Red Sea”, China’s highest grossing film in 2018. Part-funded by the

While not a central analytical focus of this paper, the Djibouti case contributes to our thinking about the so-called debt-trap debate. In this case, we do not find any evidence that exploiting debt leverage is an intentional Chinese policy. Rather debt for equity tradeoffs in the Djibouti case reflect a lack of foresight and adequate planning on both African and Chinese sides, which now prompt a reevaluation of the likely profitability and repayment terms on Chinese loans. The most likely outcome of these debates is a more systematic Chinese approach to debt rescheduling. Thus following the 2018 FOCAC summit in Beijing, both Djibouti and Ethiopia appear to have obtained a significant restructuring of the debts associated with the construction of the Addis-Djibouti railway, extending repayment periods from 10 to 30 years. The relative ease with which China altered the terms to states perceived of as key partners within the MSRI again highlights Djibouti's leverage in conjunction with Ethiopia. It also suggests that comparisons with Hambantota are misplaced.

Thinking forward, the Djibouti case is suggestive of the type of work that MSRI/BRI researchers might undertake. More specifically, while synergies between Djibouti Ethiopia are central for China in the Horn, in time neighboring Sudan, Eritrea and Somalia and Somaliland may be integrated more closely with MSR investments along the Djibouti-Ethiopia port-rail corridor.<sup>52</sup> This suggests that a *sub*-regional level of analysis—as in the Horn of Africa here—may prove more insightful into MSR dynamics and Chinese companies' strategies than looking at continents or broader regions.<sup>53</sup> Aside from this, it may be worth researching commercial contradictions between at least two rail-port infrastructure 'corridor' projects in East Africa; the Addis-Djibouti route on the one hand, and what appears as a rival scheme, the Lamu Port, South Sudan, Ethiopia Transport Corridor (LAPSETT) route in Kenya on the other.<sup>54</sup> These are presented by Beijing as complementary elements within a global MSR framework. However, viewed from East Africa, it appears the projects may be rivals for regional trade. There is also a broader question as to whether the Horn and East Africa requires such a significant increase in port and rail capacity, mindful of the proposed Bagamoyo port 200 miles further south of Lamu in Tanzania, in which China Merchants also has a stake.

Notes on the Contributor:

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PLAN, the plot is a fictionalized version of the 2015 rescue of Chinese nationals from Yemen.

<sup>52</sup> A fact reinforced by 2018's peace deals in the Horn. These boost the outlook for Chinese investments; underscored by the purchase in September 2018 of Eritrea's largest (copper and zinc) mine by China's Zijin mining company.

<sup>53</sup> For regional approaches, see; Jean-Marc F. Blanchard and Colin Flint, 'The Geopolitics of China's Maritime Silk Road Initiative', *Geopolitics* 22(2), (2017), pp. 223-245; James Reardon-Anderson, *The Red Star and the Crescent: China and the Middle East* (London: Hurst 2018). See also the *Journal of Contemporary China* special issue: China's Maritime Silk Road Initiative and Southeast Asia, *Journal of Contemporary China* 27(111), (2018).

<sup>54</sup> For details of the LAPSETT corridor see: [SEE comment box on fn 54], accessed September 15, 2018, <http://www.lapsset.go.ke>.

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